FAB Q3/9M’20 Earnings Call Transcript*

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Shabbir Malik: Good afternoon, everyone. My name is Shabbir Malik and on behalf of EFG Hermes, I welcome you to First Abu Dhabi's third quarter 2020 results call. With us on the line is the senior management of the bank. Before I pass it onto them, I just would like to ensure that this call is not for media. If you are from the media, I would request you to please disconnect.

So, I'll now handover the call to Sofia. Sofia, please go ahead.

Sofia El Boury: Thank you, Shabbir. Hello everyone, good afternoon. Thank you for joining us today to review FAB's financial performance for the third quarter and first nine months of 2020. As usual, our senior management team is here to answer your questions at the end of this call. We're very pleased to have with us our Group Chief Financial Officer, James Burdett, our Group Chief Risk Officer, Pradeep Rana, and Group Chief Credit Officer, Shireesh Bhide. So they're all here to answer your questions at the end of this call.

As usual, all our disclosures for the third quarter are available on the IR section of our corporate website. These disclosures are also accessible on our app so please feel free to refer to them across these channels. Now I'll pass it onto James for the presentation. Thank you.

James Burdett: Thank you, Sofia. Good afternoon, everybody. As usual, I'll go through the slide deck fairly quickly, highlighting the key points so we have time for Q&A at the end.

So, starting off with slide #3, and the third quarter results for the bank. We delivered a NPAT of AED 2.5 Billion which was up 4% over the prior quarter. The main reason it was up over the prior quarter was for three reasons. One, growth in revenue excluding the one-offs in the second quarter. Two, lower costs and three, lower cost of risk.

That said, yes, nine-month 2020 net profit was at AED 7.3 Billion, down 22% YoY, mainly because of one, the FED rate cuts and the impact it has on our CASAs and Global Transaction Banking (GTB) business. And two, a higher cost of risk as a result of the pandemic.

That said, all the ratios have improved QoQ and you can see we have record levels for liquidity with improvements in the core equity tier one ratio as well as our credit metrics. And we believe our strategy positions us well for long-term success, given the strength of our balance sheet.

Turning to slide #4, the guidance we put out for market and how we performed. You can see we've outperformed in most indicators. In terms of loan growth, we see mid to high single-digit growth. We're standing by that even through we're at 3% year to date, as we have a very healthy pipeline that we expect to drawdown soon.

Secondly, the cost of risk has come in significantly below the guidance of 100 to 120 basis points (bps). You can see there's the 9-month actual at 72 basis points. And we will re-rate that down from 100 -120bps, down to below 100 at the end of this presentation when we put revised guidance out to the market.

Turning to slide #5, we just wanted to give you a sense of the recovery we're starting to see in the market. Slide #5 is just a couple of proof points. One is the business confidence - PMI. And we also linked it to one of our own metrics which is credit card spend.

We can see here quite logically that activity and volumes fell off a cliff on the back of the pandemic, particularly in April. But we have seen a steady rise in business confidence and activity going into the second and third quarters, which I think you'll see reflected in our results as we go through the presentation.

Turning to slide #6 and just looking at the NPAT bridge QoQ. And we're showing excluding one-off property gains. You can see quite clearly we've had a significant reduction in net interest income. This is the full impact of the Fed rate cuts coming through in the third quarter, plus lower interest in suspense reversals (IIS), largely offset by growth in non-interest income.

Non-interest income grew across the board, through market sales, global markets trading, revaluations, et cetera, all growing very significantly QoQ. And then a lower cost of risk, which we'll talk about later in the presentation, generating that AED 2.5 Billion which is up 4% QoQ.
The chart at the bottom of Slide #6 in the middle, you can see the quarterly run rate around the AED 2.4 - 2.5 Billion, clearly lower than in 2019, mainly due to the higher impairment charges and the Fed rate cuts impact on interest margin.

Slide #7 and #8 are a couple of new slides where we talk about CIB and Personal Banking (PBG) respectively. Slide #7 is CIB performance and you can see there the anticipated reduction in net interest income coming through. Mainly impacting CASA and clearly impacting the GTB business.

Also there's a little bit of interest in suspense reversals in the second quarter which weren't repeated in the third quarter. That was broadly offset by growth in fees and commissions, mainly loan-related. And the FX and investment income also grew quite considerably on the back of GM trading gains, on the back of trading volatility successfully. But also GM sales and client flow activity also grew. That coupled with declining operating costs generated a 12% QoQ gain for that business.

And you'll see also in the press over the last quarter or so, significant number of deals where we've led or arranged the syndications. We did the largest M&A in the Middle East. We again topped the MENA loan league tables and so on; so we're performing quite well in that space.

Slide #8, even more impressive recovery in retail banking (PBG). You can see operating profits grown 25% QoQ. We had growth in net interest income on the back of the absence of TESS relief in the quarter in personal banking business and the fee and interest holidays coming back through in the third quarter. Also growth in commission income, also lower costs, all contributing to that 25% growth YoY. So, higher activity in that business as digital productivity starts to get better and better on the back of a higher net promoter score.

Slide #9 just shows the balance sheet and I guess the key thing to point out here is the very significant growth in customer deposits, up over AED 80 Billion QoQ. That primarily relates to two big transactions, one related to the government and the second one related to a public sector entity.

Those deposits came in and we're obviously deployed into short-term cash central bank balances. And as expected, we behaviourised this short term and we expected those to flow out. And to date in October we have witnessed a significant withdrawal of those deposits, as we expected. That said, for the quarter it pushed the LCR ratio up to 155% and lowered the AD ratio to 65%.

Also we're pointing out we've successfully executed the AT1 at a record yield. It was a landmark deal despite the backdrop of the environment, COVID, et cetera. That won't be settled until the beginning of October so it will appear in our fourth quarter report.
Just giving you some flavour on the growth in loans and advances and deposits on slide #10. You can see we're pleased to show growth QoQ on the lending side. As you would expect, we're up about AED 11 Billion year to date. And we've shown growth of about AED 4 Billion, QoQ.

And you can see there that the growth is mainly in the government and the GREs as we've been saying all along. We expect the GDP stimulation, particularly next year to be formed by government and GREs and those corporates that have heavy government backing. And being a traditional banker of today's customers, we expect to get a disproportionate share of the growth. And you can see that starting to come through, relative to our peers.

Similarly on the deposits, as I've said before, you can see the massive growth YoY and also QoQ. The QoQ mainly related to government and the corporate private sector. We are seeing pretty significant growth in our international business which was up 24% YoY as we see a flight to quality and FAB being a diversification play. I think we're now banking something like 40 or 50 central banks and supras. And those deposits alone grew by USD 4 Billion, QoQ.

Turning to slide #11, capital improved considerably on the back of organic profit generation. You can see third quarter profits generated 50 basis points. We also had a small reduction in core equity on the back of changes in RWA calculation. But also further improvement in the AFS reserves which as you know significantly hit us in the first quarter and has since steadily come back. Small growth in RWA on the back of those RWA changes I just mentioned plus balance sheet growth. But our return on risk-weighted assets remains flat at 2%.

Turning to slide #12, you've seen this before - if anything, the influx of deposits in the third quarter has exacerbated it. So we're a 41% lent bank as at the end of September. But you can see on the top-right hand side of slide #12, nearly 40% of our exposures are to corporates that have government backing or exposures to government and GREs themselves. And a further 6% for short-term trade loans – that's nearly half of our balance sheet. Loans and advances is to very safe assets and I think that will stand up in good stead versus our competitors in terms of cost of risk.

I've already mentioned the TESS before, but the TESS allocation was at AED 7.5 Billion as at the end of September and I'm sure we'll talk more about that, later.
Slide #13 - just diving into asset quality. I guess the most significant point to note here is a significant reduction in the cost of risk in the third quarter. But what's important to note is that we put through AED 1.3 Billion of gross impairment charges in the third quarter.

We had a partial resolution of one very large POCI asset that's been on our books for a number of years and we've had a significant court ruling in our favour. And so to reflect the recoverability of that asset, we've passed an adjustment through impairments which resulted in a lower cost of risk. And good work by the credit and risk team as they've been working diligently on recoveries and write backs as well.

It's also important to note that we updated the macroeconomic variables as per the IFRS9 model into our calculation this quarter. So, we're fully up to date with that. And you can see on the right-hand side, the NPLs remained flat at 3.9% against guidance of 4% and we had a significant pick-up in coverage ratio which now stands at 96%.

In terms of slide #14, just drilling down into net interest income. You can see it down quite considerably from the second quarter, mainly due to lower IIS recoveries in the third quarter, plus the full impact of the rate cuts coming through, and the rate resetting on our HQLA portfolios. What I would say is - this is the trough for us. We expect the fourth quarter to be flat or higher than the third quarter so we've reached the bottom of the cycle from what we can see. And we expect the full year 2020 NIM to be around 175 to 185 basis points. And obviously the net interest margin reduction itself in dollar terms, we expect to be partially recovered by some of the growth that we're anticipating.

On the non-interest income on slide #15, obviously a significant growth QoQ. Fees are up 23% QoQ, mainly related to CIB and PBG loan activity. We have had a massive uptick in foreign exchange and investment income which is up 69% QoQ on the back of trading gains and Global market sales, particularly derivative sales; but clearly yet are down as overall non-fund income is lower than last year on the back of lower activity due to COVID, et cetera, and the state of the macro environment.

Other income I haven't talked about but you're well aware of the sales and leaseback transaction in the second quarter, which weren't repeated in the third quarter.

Cost discipline continues and on slide #16 you can see we've had several consecutive quarters of falling costs. We expect costs to be lower again next quarter. And in fact, we expect to finish the full year at just under AED 4.8 Billion which represents AED 500 Million lower costs than 2019, or approximately 10% lower than last year. That's despite continued strong investment in our digital capabilities.

On slide #17, just to give you a brief update on the strategy, which we believe does position us for longer term success. We have a solid balance sheet; we have the 'AA' rating; we have continued success in terms of cost discipline - but we're here to support our key clients and on the CIB side, we are looking to really leverage our connectivity with Abu Dhabi Inc., be it the government, or the GREs. And as I've said before, we think that’s where we’ll see growth into 2021 and we have a strong pipeline that reflects that. And we are looking to deepen our wallet share with those core customers.

And as we get better products, better people, better distribution, we are starting to win more and more business off our competitors, particularly when you look at global markets, transaction banking - all these areas have grown at double digit over the past few years.

In PBG, we’re looking to be the best consumer bank. We continue to improve net promoter score; we continue to improve productivity around digital that is, automating end-to-end channels for cost productivity but also getting superior information on our customers to enhance revenue productivity. And clearly all of this is built on the back of accelerating our digital transformation which is going very well.

You’ll also note that we sold our legacy FGB license which was sitting in our books at zero (nil) as an intangible asset doing nothing. We sold that to ADQ for 10% stake which we’re excited about because it gives us access to Abu Dhabi’s digital aspirations, and I think is a key enabler for Abu Dhabi in the digital space. But in no way, shape, or form does it change our own internal digital aspirations. We see that as a very unique and attractive investment opportunity.

Turning to slide #18 and just looking at the guidance. The only guidance we’re really changing is the cost of risk which we’re now saying will be below 100 basis points.

And to sum up, I think it’s a resilient performance in quarter three. We’re one of the few banks that have shown growth. Our foundation is robust; our credit metrics are strong; our liquidity even stronger. We have a solid strategy for delivering sustainable shareholder value and we look forward to that continuing in the fourth quarter. So with that, I will handover to you for Q&A.

Shabbir Malik: Operator, can you open the line for Q&A?

Operator: Absolutely. Ladies and gentlemen, if you’d like to ask a question, please press * followed by 1 on your telephone keypad now. If you change your mind, please press * followed by 2. For those who have joined online, please press the flag icon. When preparing to ask your question, please ensure your phone is unmuted locally.

Our first question is from Naresh Bilandani from JP Morgan. Naresh, your line is now open, please go ahead.

Naresh Bilandani: Thank you. Good evening, it’s Naresh Bilandani from JP Morgan. Just a few quick questions from my side. James, by the way that was a very punchy presentation, thank you very much for that. Just three quick questions please.

One was on the deposits trend. If you could talk on how should we see the trend evolving from here. Could you kindly guide - in October, how much of the deposits actually exited the balance sheet? And if you could please share some thoughts on how you intend to place the excess liquidity more fruitfully in the fourth quarter. That would be my first question.

My second question is if you could please throw some light on how the franchise NIM will evolve from here. Your peer, ENBD, they were guiding that most of the impact of the rate cuts early in the year has already passed on into their NIM - so Q4 may see some sign of stabilisation. It would be great if you could offer some comparison to your franchise in this regard.

Third, my question is on the sale of the digital license. If you could please just provide some insight into the strategic outlook in this transaction, where do you think the role that FAB could play in this new bank going forward, if there are any opportunities for working together, cross sales? And how do you see an emergence of new entity from a competition perspective? That would be super helpful, thank you.

James Burdett: Okay, thanks Naresh and I hope you liked the new investor presentation format that Sofia and the team have diligently been working away on. We think it looks a lot better and a lot more professional.

The deposit trend first of all. So yes, we received about AED 50 Billion of one-offs in the third quarter. And I can confirm at least half of that has already left the bank. What I would say in terms of deposit trends, we are seeing continued flight to quality. We are seeing continued deposit growth. As I've mentioned - in international alone, we've seen nearly 4 Billion of deposit growth, that's USD 4 Billion of deposit growth. We continue to win cash mandates in our GTB business and as you know, it's a very profitable business.

And I think one of the things I'd like to really point out here is that every single deposit we take, we make money on. Yes, it may dilute the mathematical calculation of NIM because it inflates the balance sheet, but on every single one we create economic value on and I think it's important to point that out.

In terms of the NIM, yes, we're aligned with ENBD in our view. We think NIM has bottomed out. We expect the fourth quarter to be stable to the third quarter or actually up a little bit because we're anticipating a little bit of interest in suspense recovery to come through.

With ADQ, you'll be aware that we've got a 10% stake with an option for a further 10%. You'll also be aware that the capital of this entity is looking to be around AED 2 Billion. The way we saw this is we have a redundant license that's valued at zero that we can capitalise on immediately. So, as soon as the deal is signed on that, we can recognise a couple hundred million just on the sale of the license.

And I think it's early days for us to discuss how this ADQ digital bank will go, whether there will be opportunities for cross sale or so on. What we see is just the significant opportunities for an investment that could go a long way. But it's in no way or shape changes our own internal aspirations for organic growth. So, the way we look at it, the way I looked at it was intangible asset was zero but we're going to pick a couple hundred Million up on it – so, pretty simple calculation really. And as you know, it will take them a while to get off the ground and so on but we think it's a great opportunity. Thank you.

Naresh Bilandani: Just as a follow up, can I please just check, how will this investment be recorded? Should be we see a gain coming in on your P&L in the fourth quarter? Is that something, how we should be looking at? That's first.

And as a quick follow up, please, you also on a separate note highlighted some changes in the RWA calculation in the presentation. It would be very helpful if you could clarify what are those changes that we should be aware of.

James Burdett: Yes, we will be recording a gain on that asset once the agreement has settled and we come up with a proxy value for the 10% stake because the intangible assets recorded is zero so we need to reflect that in our accounts. And we expect that to come through in the fourth quarter.

To your second question, the movement in RWA is a combination of a number of things. You can see we had about AED 4 Billion of pure asset growth. And then we had AED 4 Billion of RWA changes based on all sorts of variables that's immaterial and not worth going into against the balance sheet or an RWA total of AED 500 billion.

Operator: Our next question comes from Waleed Mohsin from Goldman Sachs. Waleed, your line is now open, please go ahead.

Waleed Mohsin: Good afternoon. Thank you very much for the presentation. Three questions from my side. First of all, in terms of provisioning, if you could please clarify the recoveries on the POCI assets, which sector did they emanate from? And just linked to that question on provisions, the impact of the model overlays - you mentioned you made some adjustments to the macroeconomic variables. Just wanted to get a sense of how much of a provisioning impact did those adjustments have during the third quarter. So that's the first question on provisions.

Secondly, you mentioned that you do expect net interest margins to recover in the fourth quarter. And if I got it right, you're saying that you expect the full year net interest margin to be broadly in the 1.75% range? If I calculate that, then that means that the fourth quarter NIM would be somewhere between the 1.65 - 1.7% range.

I just wanted to follow up because if there is indeed 100 to 200 basis points differential in the spread that you earn on the lending versus where this liquidity is parked, then a large part of the impact that we saw during the third quarter NIM should be linked to the inflow of deposits. And that reversing, I would have expected a slightly more positive impact on net interest margin in the fourth quarter. So, if you could just clarify what the approximate impact on NIM was because of the deposit inflows and them being parked in low yielding assets - that would be very helpful.

And the last question from my side is on dividends. Any clarity that you have from the regulator in terms of the dividend payments for FY20, thank you very much.

James Burdett: Okay, I'll take the second and third question and then pass it to the credit risk guys to talk about the POCI asset and the provisioning. So yes, you're correct. We expect the full year NIM to finish around 175 to 185 basis points. You're also correct that it implies the pickup in the fourth quarter. We're just being conservative in stating that the third quarter appears to be the bottom from what we can see. And we think it's troughed here and going forward it will flat line or improve depending on the dynamics of the market or the balance sheet.

In terms of your third question, it was to do with the dividends. We had nothing from the central bank confirming treatment of dividends. We will expect the central bank guidance to come out at some point but I believe there will be no change. As long as your core equity tier one is above the minimum threshold, and the various other criteria that the central bank issues around governance, regulatory requirements, addressing audit issues and so on and so forth - I think if those are all ticked, we're at liberty to pay a dividend. And I'll hand over to Shireesh and Pradeep for the POCI assets.

Shireesh Bhide: Thank you. Waleed, I think your question was which industry segment does the POCI asset belong to. I think the asset in question was a mixed-used commercial real estate and hospitality sector asset; pretty well diversified and well collateralised in terms of the collateral; the collateral having its own cash flows associated with it. So mixed-use commercial real estate and hospitality.

Pradeep Rana: Hi Waleed, your question on macroeconomic variables. What we can say is that it has been updated to reflect the deteriorating operating environment in line with the UAE CB guidelines. So yes, that has been updated. And obviously for the MEVs (macro economic variables), we've taken into consideration GDP, oil, property and equity prices.

Waleed Mohsin: Got it. And if I could follow up please, how much of an impact would you say approximately came from the adjustment of the macroeconomic variables to provisions during the third quarter?

James Burdett: Yes, you can see in the third quarter, we put through AED 1.3 Billion of gross provisions with AED 1.2 Billion the time before. The macroeconomic variable component roughly across the board for the whole year is about AED 1 Billion.

Waleed Mohsin: Just have a couple of follow up, sorry. You said AED 1 Billion, sorry James? I missed that.

James Burdett: Yes, a Billion, just over a Billion.

Waleed Mohsin: Yes. And then last final follow-up from my side, the impact from deposits. I was just wondering the timing of these deposits. Did they come in at the end of the quarter?

And effectively what's the calculation we were doing is that if these AED 80 Billion were placed, obviously these are transitionary deposit and half of them have left but if these were placed in high-yielding assets, and let's say the spread was around 150 bps...

James Burdett: No, you can see very clearly from the presentation that the deposits came in. They came in roughly middle of the month in September and they've left mostly in October, a significant portion has left in October. And you can see from the balance sheet a diagram that we have on page #9 that we placed it with cash and balance at the central bank where obviously there's no capital and we get an economic profit on it.

Waleed Mohsin: Got it, thank you much.

Operator: Our next question comes from Hootan Yazhari from Bank of America. Hootan, your line is now open, please go ahead.

Hootan Yazhari: Thank you all. Two questions from my side. Reverting back to deposits and a relatively high interest expense that you saw during the quarter, what I'm trying to understand is you also saw a pretty meaty pick up in time deposits. And maybe time deposits grew more than they should have given the sort of liquidity that's in the market and the cheap cost of funding that we've seen.

What I'm trying to understand is as well as relinquishing some of these high-velocity deposits, are there opportunities for you to further lower your cost of funding in subsequent quarters by managing down the time deposit build up that you've seen? Or there's nothing really to be done there?

The second question relates to your cost space. You're obviously discussing a lot about moving away from interest income towards non-interest income, fee-based advisory revenues and the like there. What I'm trying to understand is do you believe you have the right sized cost space for this? Do you have the right personnel? Do you have the right technology? Or is this going to require investments which could hinder your ability to reach your longer term cost targets? Just trying to understand that. Thank you.

James Burdett: Okay so in terms of the net interest margin, yes, we expect the cost of customer deposits to continue to fall. As interest rates fall obviously that will impact us and the balance sheet.

I think to your question in terms of the economic profit that we make on some of these short-term government flows, because they are short-term government flows and because those flows need to come in and out of the balance sheet very quickly, we are forced to place them with Fed and ECB. As you know that attracts zero capital but in many cases we swap it back to dollars as it's the ECB where we foreseeably make a small spread on it. So, we're making 10 to 15 basis points on these deposits without any risk, but to deploy them into longer yielding assets, or higher risk assets, it's not right because we need to behaviourise these from a liquidity perspective according to how we think they'll flow. And we know from our relationship with the government that these deposits come in and go out and so that there's volatility there.

But we're always trying to optimise our assets and our HQLA portfolio - but at the same time, we need to manage the HQLA portfolio in accordance with the regulations. We need to make sure we've got a high-quality HQLA portfolio because it can bite us if we go down the risk and credit spread starts flowing out. It impacts our core equity tier one as it did in March.

To your second question on cost, we're always looking at cost optimisation and every single cent we're spending on digital, is to gain a cost efficiency in terms of automating end-to-end process or enhancing revenue productivity.

We're also looking at off-shoring. We've created an off-shore company in India. We're looking to make some arbitrage opportunities there where we know we can't automate end-to-end processes. But you've seen consistently throughout post-integration of the two banks, consistently QoQ reductions in the head count and I expect that trend will continue particularly on the back of low interest rate environment. I think that answers your questions.

Operator: Our next question comes from Alok Nawani from Ghobash Trading and Investments. Alok, your line is now open, please go ahead.

Alok Nawani: Good afternoon everyone and thanks so much for the call. There are two questions from my side. One is if I could ask, what would be your adjusted cost of risk in the third quarter if you didn't have the partial resolution on the POCI loan that you just spoke of.

And aside from that, I was just wondering your Group 2 exposures stands at about AED 1.6 Billion. You have about 24% coverage on that. I'm just wondering what helps you draw comfort in keeping coverage to about 23% or so? And also how might your ECL model react once the program period comes to conclusion?

And if I could just add a connected question to that, what are your views on the prospects of the extension of the TESS programme? That would be a welcomed development or something that the industry is looking for? Thank you.

Pradeep Rana: Yes, hi. On your questions on the provision coverage on Stage 2, yes, it's around 20% but I think you know that when we do take in the collateral coverage as well that takes it up to over 60% so in that sense, we do feel very comfortable.

James Burdett: And your first question, the adjust cost of risk is just over 100 basis points.

Operator: Our next question is from Chiro Ghosh from SICO. Chiro, your line is now open, please go ahead.

Chiro Gosh: Hi, this is Chiro Gosh from SICO Bahrain. I have two very quick questions. The first one is on how sustainable do you believe your fee income is, what you achieved in third quarter?

And the second one is slightly different one about the POCI account. So I see that in this quarter there was some reversal in the POCI account but the POCI exposure amounting third quarter is higher than the second quarter. If you can throw some light how did that happen?

And more importantly I see the provision that you have taken against the POCI account is roughly around AED 0.7 Billion versus POCI loan book of around AED 5 Billion. So, do you believe it is sufficient or you might have to do something else?

James Burdett: Yes, on the non-fund income, yes, we do believe it's sustainable. We're seeing continued increases in activity across all our lines of business and we can see internally that we have a pretty significant pipeline. But also I think you've seen in the press a number of deals that we're working on that are quite public, that have come over the last couple of months. That's starting to accelerate. So I think you are starting to see activity come back and obviously with more activity, we'll start to see continued growth in fee income.

On your question about POCI asset, it's still a POCI asset. We've just reflected the recoverability of that asset through the impairment line. So I think that answers your question.

Operator: We have one further question. As a reminder ladies and gentlemen first, to ask any further questions, please press * followed by 1 on your telephone keypad now.

Our next question comes from Vikram Viswanathan from NBK Capital. Your line is now open, please go ahead.

Vikram Viswanathan: Hello, good afternoon. Thank you for the presentation. I have a question on the write-backs that you booked in Q3. Should we look at these write-backs as a one-off, or do you think you have a pipeline which can keep such write-backs coming in, in the following quarters?

James Burdett: Yes, we obviously make provisions and we obviously do write-backs. We have an NPL portfolio that's quite significant but it's largely comprised of a handful of significant large names. And we're continuously working on them and I can say that we are looking at it and further write-backs in the fourth quarter.

I think there's always ins and outs when you're looking that the provision line. It's not just raising provisions and writing them off and walking away. We have a dedicated team that's been quite successful at working on it and I think in line with our strong underwriting standard, you would expect to see more recoverability coming through.

Vikram Viswanathan: Okay, thank you.

Operator: We have no further questions so I'll hand back over to you.

Shabbir Malik: If I may, this is Shabbir Malik. If I may ask one or two questions? In terms of your movement of loans between stages, have you seen anything noticeable in the sectors which have been more impacted by COVID-19? Anything to suggest in third quarter deterioration in credit quality in some of the sectors that are more impacted by COVID19?

Pradeep Rana: Yes, hi Shabbir, this is Pradeep. I think when we do look at the TESS programme, I think when we compare quarter three with quarter two, I think what we have seen is that we have seen a reduction in most sectors, both in terms of exposure and on deferral. But on the real estate sector, yes, we have seen an uptick. When we look at the real estate exposure we are talking about both commercial real estate and hospitality. So that's one area where we have seen a slight uptick which has resulted in an increase in ECL as well. I hope that answers your question.

Shabbir Malik: Thanks. And Natasha, I think there's another question on the line.

Operator: Absolutely, there's Vijay Harpalani from Al Tayer Group. Your line is now open, please go ahead. Okay, we're not getting any audio from Vijay so I'll hand back over to you.

Sofia El Boury: I think Vijay also sent over his question through the webcast which I can ask. He had a question about the comfort with collateral values and provisioning levels across energy-related and construction sectors. And whether we expect further capital inclusion into the newly formed digital bank - so these two questions. Perhaps the first one, Pradeep?

Pradeep Rana: Yes, in terms of collateral values for construction and energy and real estate so yes, some developments in terms of provisioning and collateral coverage for both, especially when we look at stage three, we are very comfortable.

James Burdett: And your second question, no, we don't expect to be injecting any capital into this entity. All we've done is sold our license to the bank which obviously from an accounting perspective needs to be revalued into our books in the fourth quarter, if the transaction happens in the fourth quarter as we expect.

Operator: We have a new question registered by Rahmatullah Khan. Your line is now open, please go ahead.

Rahmatullah Khan: Hi, this is Rahmatullah from ADCB Asset Management. My question is basically on the balance sheet. Basically what I see that your proportion of loans and advances in total balance sheet is just around 40 - 42%, which is pretty low if compared to any bank anywhere in the world probably. Do you have any thoughts on where this proportion should be - higher? That will help you on the yield side as well?

James Burdett: Yes, I what I would say are two things. All liquidity is good liquidity. Every single deposit we take on, we take on at an economic profit. Because we're such a successful bank in terms of garnering liquidity, we're forced to place a significant proportion with central banks in cash. And we do that because we make a nice economic profit on it and we only behaviourise a small portion of those volatile deposits as longer term liquidity, we're constantly updating our models to do that.

This percentage of 41% dropped considerably because of an AED 80 Billion influx on deposits to which a large proportion has already flowed out so the percentage of change can be quite volatile. But I think in terms if you're looking to model this, you need to look at deposits separately from loan, each have their own economic dynamics.

Rahmatullah Khan: Yes, fair enough. Thank you so much.

Operator: We currently have no further questions.

Shabbir Malik: If I may, one question from my side, this is Shabbir. When I compared the amount of instalment deferred at the end of 2Q and compare them to 3Q, the amount hasn't changed much. It's come down to I think - Group 1 has come down to AED 6.4 from AED 7 Billion - so it seems like there haven't been a lot of repayments. Is this because the process has started more recently and it's going to take time for some of these amounts to be repaid?

Shireesh Bhide: Hi Shabbir, this is Shireesh. I think you're right. You've partially answered it yourself. I think from the time this scheme was announced, obviously all of the money didn't go out at one point in time. The uptick of the TESS release happened at various points in time.

And some have been paid back and I think it's probably now just settled into a fully mature relief that's out there now. So yes, I guess it's not at in point in time disbursement that happened, it happened over time. And it's a combination obviously across large institution clients going all the way down to individual borrowers. It's a combination thereof.

Shabbir Malik: Okay, thank you. And one follow-up question, please. If I look at your loan origination, what is interesting is that your retail volumes or retail loans have not grown as much as perhaps some of the other banks in UAE. Is that a deliberate strategy that you've not grown retail loans as much in the third quarter? Or is it just because of repayments coming in on existing loans that has kept the overall loan value relatively stable?

Shireesh Bhide: I think we have remained consistent in terms of our cherry-picking outlook in terms of PBG target market. And we obviously further tighten selectively some of our origination avenues. So, obviously in this environment we remain alert to doing more secure business where possible. And therefore secured versus unsecured, it gives probably the corporate investment bank franchise a little more of an advantage when it comes to being able to do more secured loans over unsecured loans. But again, having said that, we continue to bank all the opportunities that fit our target market in this sector and criteria.

Shabbir Malik: Okay, I think there are no further questions from me. Sofia, if you would like to make any follow-up comments or would you like to conclude the call?

Sofia El Boury: Thank you, Shabbir. Thank you everyone for participating. Obviously, if there are further questions, we can take them offline. Please do feel free to reach out to the IR team if you have any follow-up questions. So, thank you very much for your participation. Thank you to our senior management team and have a great day.